

PUBLIC DISCLOSURE

October 9, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First State Bank of West Manchester
RSSD #381727
101 North Main Street
West Manchester, Ohio 45382

Federal Reserve Bank of Cleveland
P.O. Box 6387
Cleveland, OH 44101-1387

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The major factors and criteria contributing to this rating include:

- A reasonable loan-to-deposit ratio.
- A majority of the bank's loans were within its assessment area.
- An excellent distribution among individuals of different income levels, including low- and moderate-income individuals, and a reasonable distribution among businesses and farms of different revenue sizes.

The previous CRA examination on August 11, 1997 also resulted in a "Satisfactory" performance rating.

DESCRIPTION OF INSTITUTION

The First State Bank of West Manchester (“First State”) is a one-office banking institution located in West Manchester, Ohio. First State has no branches or automated teller machines (ATMs) and is not affiliated with any bank holding company.

First State reported assets of approximately \$14.6 million as of June 30, 2001. Loans constitute approximately 60% of total assets, with residential real estate and individual loans accounting for nearly 64% of the loan portfolio. (See table below).

First State’s assessment area is located in a non-metropolitan statistical area, which includes portions of Darke and Preble Counties. The block numbering areas (BNAs) included in the assessment area in Darke County include 5601, 5701.01, and 5701.02, and in Preble County include 4001, 4101, 4201, 4501, and 4550.

First State competes with several national and regional financial institutions in providing retail-banking services within its assessment area. Additional details concerning the assessment area are contained later in this report.

The following table presents several key financial ratios for the bank. Based on the bank’s Net Loan & Leases to Total Deposit ratio, they are demonstrating an ability to meet the credit needs of their assessment area by placing back into the community a majority of their deposits in the form of real estate, consumer, commercial, and agricultural loans.

Key Financial Ratios As of June 30, 2001	
Return of Average Assets	.55%
Net Loans & Leases to Average Assets	60.14%
Investments to Average Assets	30.68%
Total Deposits to Average Assets	80.55%
Net Loans & Leases to Total Deposits	74.67%
1-4 Family Residential Loans to Average Loans	41.08%
Consumer Loans to Average Loans	23.09%
Commercial Loans to Average Loans	16.38%
Agricultural Loans to Average Loans	18.84%

Based on First State’s assets size and financial condition, the bank has the ability to meet the credit needs of its assessment area. There are no legal or other impediments that would hamper the bank’s ability to meet the community’s credit needs.

SCOPE OF EXAMINATION

The data used for the examination is from January 2001 through June 2001. The analysis included a review of small business, small farm, home equity, motor vehicle, and other secured and unsecured consumer loans. First State is not a Home Mortgage Disclosure Act (HMDA) reporting institution; therefore, residential real estate loans are not included in this analysis.

Since the bank has no low-, moderate-, or upper-income geographies, a geographic distribution of the loan data would not be meaningful. Therefore, the emphasis of the analysis was placed on the borrower distribution of lending to low- and moderate-income individuals.

A detailed analysis of the assessment area is in the assessment area description section of this public evaluation. Consideration for the evaluation was given to the size of the institution, lending opportunities within the assessment area, and competition with other institutions.

DESCRIPTION OF ASSESSMENT AREA

First State is located in West Manchester, Ohio, in a non-metropolitan area that includes portions of Darke and Preble Counties. The assessment area consists of seven middle-income tracts. There are no low-, moderate-, or upper-income tracts in the assessment area.

Darke and Preble Counties are located in the southwestern-central portion of the state, bordering on the State of Indiana. The Wabash, Stillwater, and Mississinewa Rivers flow through Darke County, while the east fork of the Whitewater River flows through Preble County.

Primarily a rural farming area, Darke County ranks second in the state in corn production, raising hogs, and cash receipts from farm marketing. Preble County ranks fifth in the state in raising hogs and pigs.

Major employers in Darke County include AlliedSignal Inc., Brethern's Home, and Corning Inc. The major employers in Preble County include CBS Personnel Services, Carl S. Akey Inc., and Eaton City Board of Education.

According to the FDIC/OTS Summary of Deposits¹ as of June 30, 2000, First State's overall deposit share in Darke and Preble Counties was 1.05%, which ranks First State sixteenth in the county's market share. When analyzing the county markets, it should be noted that First State is a small bank with assets of less than \$250 million. Most of the bank's major competitors within the county are financial institutions with assets of more than \$250 million. Some of the bank's competitors include, but are not limited to, Greenville National Bank, Second National Bank, Eaton National Bank, and Farmers State Bank.

PERFORMANCE CONTEXT

Demographic Characteristics

The population of this assessment area, as of the 1990 census, was 36,188, which is 67.5% of the population of Darke County and 90.2% of the population of Preble County. *Table 1* illustrates the demographic and economic characteristics of the bank's assessment area.

¹ www.2.fdic.gov

Income Characteristics

The 1990 median family income for the assessment area was \$30,625, which is comparable to both Darke and Preble Counties at \$31,730 and \$31,190, respectively, however, less than the State of Ohio at \$34,351.

Families comprise 79.0% of the total households in the assessment area. Families living below the poverty level constitute 7.3% of that figure. Of the families residing in the assessment area, 15.8% are low-income families, 19.4% are moderate-income families, 26.4% of middle-income families and the remaining 38.4% are upper-income families.

Housing Characteristics

As of 1990, there were 13,761 housing units in the assessment area, of which 91.8% were one-to-four family units, 3.2% were five or more family units, 4.5% were mobile homes, and less than one percent were other units, including boarded-up units. Of the housing units in the assessment area, 73.6% were owner-occupied. The median age of the housing stock in the assessment area was 34 years old, which represents a rather young housing community, yet comparable to 35 years in Darke County. Preble County and the State of Ohio median housing stock represent 37 years and 38 years, respectively.

Labor, Employment and Economic Characteristics

According to the Ohio Job and Family Services² the average unemployment rate across Darke County for the month of July 2001 was 3.8% and Preble County was 3.9%. The unadjusted rate for the State of Ohio was 4.4% for the same time frame. The national unadjusted rate for July 2001 was 4.7%.

² Ohio Department of Job and Family Services in cooperation w/U.S. Dept. of Labor

CONCLUSION WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First State's net loan-to-deposit (NLTD) ratio is reasonable, based on its size, financial condition, assessment area credit needs, and competition. The bank's NLTD ratio has risen over the past eight quarters from 57.8% at September 30, 1999, to 74.7% at June 30, 2001, with an average of 66.4%. In comparison, the NLTD ratio for the peer group during the same time frame ranged from 64.9% to 66.8%, with an average of 64.9%. The peer group for First State includes all insured commercial banks having assets between \$10 million and \$25 million with one banking office located in a non-MSA.

Loans Inside and Outside the Assessment Area

The table below illustrates that the bank made 78% of its loans by number and 83% of its loans by dollar amount within its assessment area. This indicates that a majority of the bank's loans are within its assessment area. The loans made outside of the assessment area are concentrated in areas just to the south and to the west of the bank's assessment area.

The First State Bank January 2001 – June 2001								
Loan Type	Inside the Assessment Area				Outside the Assessment Area			
	# of Loans	%	\$ (000's)	%	# of Loans	%	\$ (000's)	%
<i>Consumer</i>	90	75.6	1,022	81.4	29	24.4	234	18.6
<i>Small Business</i>	22	84.6	411	84.0	4	15.4	78	16.0
<i>Small Farm</i>	15	88.2	140	92.1	2	11.8	12	7.9
<i>Total</i>	127	78.4	1,573	82.9	35	21.6	324	17.1

Geographic Distribution

Given that all of the geographies within the bank's assessment area are middle-income

geographies, no meaningful geographic distribution analysis may be performed.

Borrower Distribution of Different Income and Revenue Size of Business or Farm

The bank has an excellent distribution of consumer loans among borrowers of different income levels, as the table below illustrates. The bank’s percentage of consumer loans to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income households within the bank’s assessment area. The percentage of lending to these borrowers would have likely been higher had income been reported for all consumer loans.

Borrower Distribution of Consumer Loans

Borrower Distribution: CONSUMER LOANS State: OHIO										
Evaluation Period: JANUARY 1, 2001 to June 30, 2001										
MA/Assessment Area:	Total Consumer Loans		Borrower Distribution							
			Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% of Hhlds	% BANK Loans*	% of Hhlds	% BANK Loans*	% of Hhlds	% BANK Loans*	% of Hhlds	% BANK Loans*
Non-MSA	90	100	18.3	18.9	16.6	17.8	22.7	26.7	42.4	7.8

* Of the percentage of bank loans, 28.9% of the loans had no income reported

The bank has a reasonable distribution of loans to small businesses, as illustrated in the table below. First State made a majority of its business loans to small businesses with less than \$1 million in revenue, though its percentage of lending fell short of the percentage of small businesses within the assessment area. Nearly 100% of the bank's business loans were for amounts less than \$100,000.

Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES State: Ohio							
Evaluation Period: January 1, 2001 to June 30, 2001							
MA/Assessment Area:	Total Small Loans To Businesses		Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	#	% of Total	% of Businesses*	% BANK Loans**	\$100,000 or Less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000
Non-MSA	22	100	90.8	72.7	21	1	0

(*) Businesses with revenues of \$1 million or less as a percentage of all businesses. PCI Services, Inc. 2000

(**) Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses.

The bank has a reasonable distribution of loans to small farms as illustrated in the table below. First State made a majority of its farm loans to small farms with less than \$1 million in revenue,

though its percentage of lending fell short of the percentage of small farms within the assessment area. All of the bank's farm loans were for amounts less than \$100,000.

Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS State: Ohio							
Evaluation Period: January 1, 2001 to June 30, 2001							
MA/Assessment Area:	Total Small Farm Loans		Farms with Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size		
	#	% of Total	% of Farms*	% BANK Loans**	\$100,000 or Less	>\$100,000 to \$250,000	>\$250,000 to \$500,000
Non-MSA	15	100	99.4	73.3	15	0	0

(*) Farms with revenues of \$1 million or less as a percentage of all farms. PCI Services, Inc. 2000

(**) Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms.

Complaints

Neither First State nor the Federal Reserve Bank of Cleveland has received any complaints regarding performance under the Community Reinvestment Act.

Compliance with Antidiscrimination Laws

No violations of the fair lending laws were noted during the examination. Interviews with employees and management revealed an understanding of the regulatory requirements regarding fair lending.

Community Contacts

One community contact was conducted during this evaluation. This contact provided information regarding the strength of the local economy, which supports the demographic information previously discussed. Although a few businesses have closed or downsized, others are expanding and employing the displaced workers. This contact also provided information regarding community development opportunities. Larger community and regional banks operating in the area typically finance these types of opportunities, as smaller community banks may not have the resources available. However, small community banks operating in the area were noted as being a valuable resource in providing financial services to consumers and small businesses and farms.

**APPENDIX A
TABLE 1**

Demographics Information								
Assessment Area								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0	0	0	0	0	1,634	15.8
Moderate-income	0	0	0	0	0	0	2,002	19.4
Middle-income	8	100.0	10,319	1000	756	100	2,723	26.4
Upper-income	0	0	0	0	0	0	3,960	38.4
Total Assessment Area	8	100.0	10,319	100.0	756	100.0	10,319	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	0	0	0	0	0
Middle-income	13,761	10,127	100.0	73.6	3,096	22.5	649	4.7
Upper-income	0	0	0	0	0	0	0	0
Total Assessment Area	13,761	10,127	100.0	73.6	3,096	22.5	649	4.7
	Total Businesses by Tract				Businesses by Tract & Revenue Size			
					Under \$1 million		Over \$1 million	
	#	%	#	%	#	%	#	%
Low-income	0	0	0	0	0	0	0	0
Moderate-income	0	0	0	0	0	0	0	0
Middle-income	1,112	100.0	1,010	100.0	58	100.0	58	100.0
Upper-income	0	0	0	0	0	0	0	0
Tract not reported	*N/A	0	*N/A	*N/A	*N/A	*N/A	*N/A	*N/A
Total Assessment Area	1,112	100.0	1,010	100.0	58	100.0	58	100.0
	Percentage of Total Businesses:				94.6	1,068	5.4	

* tract not reported data is not available by revenue size of businesses, however 44 businesses that did not report revenues are included in the total businesses by tract in the assessment area

APPENDIX B

CRA GLOSSARY

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area (“BNA”): Statistical subdivisions of a county for grouping and numbering blocks in nonmetropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into “male householder” (a family with a male household and no wife present) or “female householder” (a family with a female householder and no husband present).

Full review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do

business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Metropolitan area: Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small loans to business: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.